



**36<sup>th</sup> Annual Report 2012-13**

## Acquisition Criteria

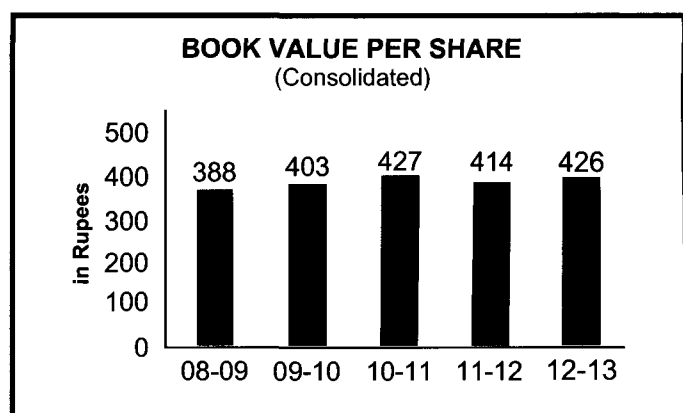
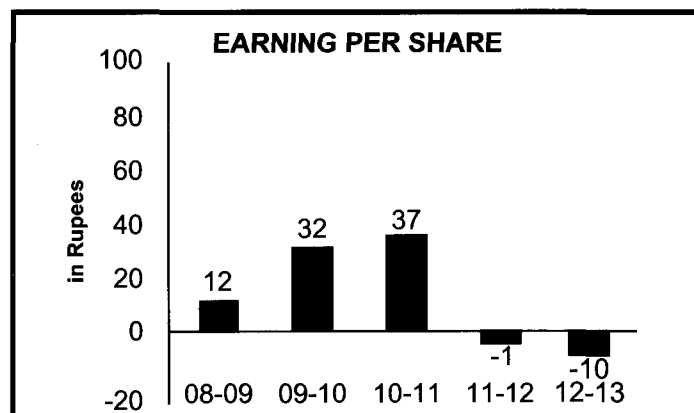
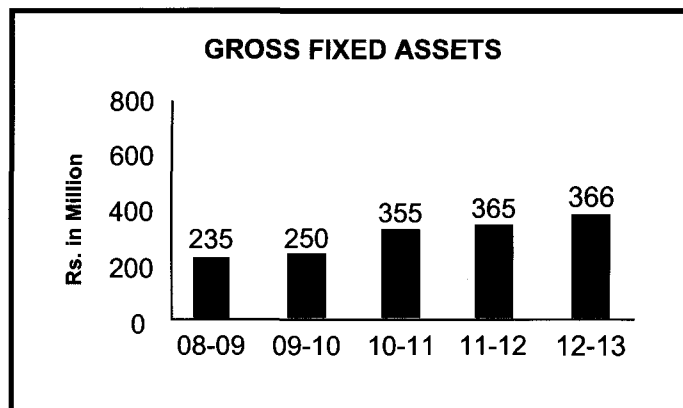
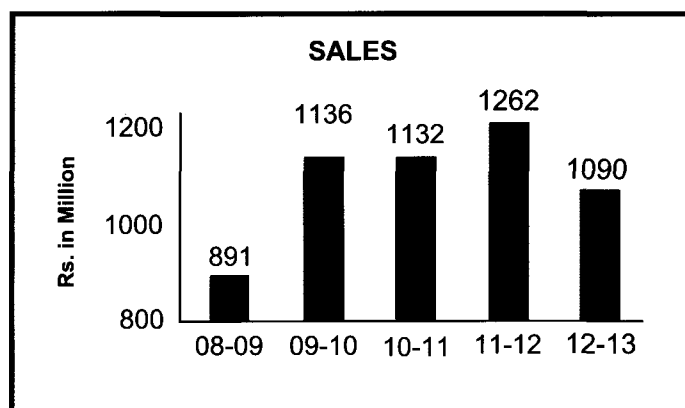
We use this space to communicate with potential sellers and their representatives, what we look for in a potential acquisition. If you, the reader, have no personal connection with a business that might be of interest to us but have a friend who does, perhaps you could pass this message on to him.

Here's the sort of business we are looking for:

1. Enterprise value in the region of Rs. 100 crores (Rs. 1 billion),
2. Demonstrated consistent earning power (future projections are of little interest to us, nor are "turnaround" situations),
3. Businesses earning good returns on equity while employing little or no debt,
4. Management in place,
5. Simple businesses,
6. An offering price.

We will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast answer as to whether we are interested. We prefer to buy for cash, but will consider issuing stock when we receive as much in intrinsic business value as we give.

Our favourite form of purchase is one where the company's owner-managers generate significant amounts of cash, sometimes for themselves, but often for their families or inactive shareholders. At the same time, these managers wish to remain significant owners who continue to run their companies just as they have in the past. We think we offer a particularly good fit for owners with such objectives. We invite potential sellers to check us out by contacting people with whom we have done business in the past.



## Revathi Equipment Limited

### CORPORATE DATA

#### BOARD OF DIRECTORS

ABHISHEK DALMIA

Executive Chairman

S. HARIHARAN

Whole-time Director (From August 01, 2012)

CHAITANYA DALMIA

S.C. KATYAL

B.D. NARANG

B.V. RAMANAN

P.M. RAJANARAYANAN (From May 08, 2012)

#### SHARE TRANSFER AGENTS

S.K.D.C. CONSULTANTS LTD.,

KANAPATHY TOWERS

3rd FLOOR, 1391/A-1, SATHY ROAD

GANAPATHY, COIMBATORE 641 006.

#### COMPANY SECRETARY

M.N. SRINIVASAN

#### REGISTERED OFFICE

POLLACHI ROAD,

MALUMACHAMPATTI POST

COIMBATORE - 641 050.

Website : <http://www.revathi.in>

#### BANKERS

AXIS BANK LIMITED

CANARA BANK

DENA BANK

HDFC BANK LIMITED

ICICI BANK LIMITED

STATE BANK OF BIKANER & JAIPUR

STATE BANK OF INDIA

IDBI BANK LIMITED

BANK OF INDIA

#### AUDITORS

LODHA & Co.,  
KOLKATA

#### MANAGEMENT TEAM

L.S. SHASHI PRAKASHA

Vice - President

Business Unit Head - Drilling Equipment Division

T. MANOHAR

Vice - President

Business Unit Head - Construction Equipment Division

### Revathi's Corporate performance vs the Nifty

Year	Annual percentage change in		Relative results
	Per share book value of Revathi (1)	Nifty 50 with dividend included (2)	(1) - (2)
2002-03	9.0%	-11.7%	20.7%
2003-04	21.6%	86.3%	-64.7%
2004-05	41.3%	17.3%	24.0%
2005-06	19.1%	70.0%	-50.9%
2006-07	11.6%	13.8%	-2.2%
2007-08	16.6%	25.7%	-9.1%
2008-09	-2.5%	-35.4%	32.9%
2009-10	3.6%	75.3%	-71.7%
2010-11	6.0%	12.4%	-6.4%
2011-12	-2.9%	-8.2%	5.3%
2012-13	2.8%	8.7%	-5.9%
Average Annual Gain (FY03 - FY13)	10.5%	17.6%	-7.1%
Overall gain (FY 03 - FY 13)	198.6%	495.3%	-296.7%

**Notes :**

1. All data is for financial years and includes dividends paid, if any.
2. The Nifty-50 numbers are pre-tax and assume that dividends were reinvested, whereas the numbers for Revathi are after tax.
3. We think our investors should measure our performance against their general experience in the equity markets. While the Nifty-50 is not perfect (nor is anything else) as a measure of performance, it has the advantage of being widely known and reflects with reasonable accuracy the experience of investors generally with the market.
4. The reason we have used the "growth in book value" as against stock price is, that over time, we intend measuring our performance by checking if a rupee retained has created a rupee worth of market value.
5. If you expect, as we do, that owing a representative stock index would produce reasonably satisfactory results over a period of time, it follows that, for long-term investors, gaining small advantages over that index must prove rewarding.

**CHAIRMAN'S LETTER**

Our increase in consolidated net worth during FY13 was `36 million, which increased the per share book value by 2.8%. Over the last eleven years (that is, since the present owners took over) per share book value, has grown from `151 to `426 (`510 after ignoring the effect of goodwill write-offs), which, after factoring in dividend paid during this period, works out to a rate of 10.5% (12.1%) compounded annually.

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The state of the economy has been no secret. For five years now, since mid-2008, the S&P BSE Capital Goods index and the S&P BSE Small Cap index have tread water. The S&P BSE Realty Index, which tracks the other industry we are exposed to, is down to half of where it was when the Lehman crisis hit the global economy. The broader market as measured by the S&P BSE 500 index has compounded at 2.4% since April 2008. As against this, your company has compounded book value at an annualized rate of 4.5% over the same period. Obviously this performance is not satisfactory, but it is good to keep things in perspective.

The good news is that with every passing year of the economy being in a mess, the time when it will recover is getting shorter. The other good news is that tough times are the best times to revisit your business model, your strategy, your team, your served markets. Basically such times force you to revisit every underlying assumption and make sure they are still valid. And if they are not, tough times are the best times to convince people that something needs to change to make things better.

We have been on that journey ever since the crisis hit the global economy in October 2008. In some of our businesses, progress is better than in some other businesses. But still, the overall results are certainly less than satisfactory. I know we can do better and the striving will not stop.

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Coming first to the Drilling Solutions business, we made some progress along two important dimensions.

Before I elaborate on the areas where we made some progress, a quick recap of our overall direction. The usual growth strategies focus on developing new products to serve existing markets, finding new markets for existing products or finding new uses for existing products. Of these, we have been working on the first two approaches.

A typical product development process goes through several stages before a new product becomes available for commercial production. These stages are designing - building a prototype - internal testing - design modification based on results of internal testing - modifying the prototype - further internal testing - field testing - design modification based on feedback from field testing - commercial production. This process typically takes three to four years.

Since 2004, we have developed eleven new products. Of these, four have become important contributors to our financial results and two are in the final stages of commercialization. We expect to start commercial exploitation of these two products during the next financial year. Though we now have a wider product basket, we have not fully exploited the market potential of these products. As the market picks up, we hope that these new products will give our Revenues a meaningful boost.

After getting into the South East Asia market last year, we were able to win business from the African continent during this year. But given the state of the global economy, things continue to be tough. The South East Asian market got affected due to the discovery of shale gas in the US and parts of the African market has had challenges in arranging acceptable lines of credit to buy goods. There will always be some surprises but the hope is that as we diversify our product basket and our exposure to multiple markets, these vagaries will even out.

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The Concreting Solutions business has been the kind of business where you spend most of your time praying that there will be some redemption around the corner. It has been the kind of industry that reminds you of the maxim - the market can stay irrational longer than you can stay solvent.

Despite the industry consolidation, the market conditions have been so tough that the leader has found it hard to set rational prices for its products. As a result, their net margins have sunk to somewhere between two and three per cent. When the market leader who, despite controlling about two thirds of the market, finds it hard to make money, that tells you something about the state of the market.

To survive in such an unforgiving market, we rationalized our cost structure further and also changed some key members of the management team. The market being what it is, we may decide to further restructure the business during the next financial year.

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Semac Consultants (erstwhile Potential Semac) turned out a satisfactory performance in a tough year. A combination of Revenues growth and tight control over costs allowed us to post a profit after tax and minority interest of Rs.70 million as compared with a small loss last year.

Additionally, our wholly-owned subsidiary, Renaissance Construction Technologies, which was spawned around Q4FY12 as a direct result of our exposure to Semac, earned a profit of Rs.40 million in its first full year of operation.

In many ways, this was a year of consolidation of the various initiatives we had taken last year. The leaders of each of our offices contributed in their own way, by either showing growth in Revenues or by clamping down on costs or some combination thereof. The net result was that we were able to grow year-on-year Revenues by fourteen percent while bringing costs down by almost five percent over the previous year.

Of course, finally it is the people who make or break a business. However, one should not underestimate the role of strong processes. After we took over the business, we found that most of the decision-making was based on "experience" and not much was based on hard data. What was more confounding was that beyond the data required statutorily, there was very little data available to take day-to-day business decisions. As an example, anyone who has run a business would appreciate the need to have historical data to guide him/her in forecasting Revenues, based on the order book on hand. Without an accurate prediction of Revenues, one could build a cost structure, which may throw profitability out of kilter with even a slightly lower level of Revenues.

Gradually, over the years, we have worked hard to create systems to capture data to help decision-making at each office. With each passing year, the quality of data improves, thereby enhancing our ability to build greater predictability into our business. This is the journey of transforming a business, which was historically run by first generation technocrats, who undoubtedly were very good at the core of the business to a more robust business. There are lots of areas still to be improved but I think the basic building blocks are now in place.

One other important change that was initiated at some of the offices was to bring about cultural change through shared responsibility. Historically, almost all the important decisions were taken by the leader of that office. The rest of the office was only expected to deliver a quality drawing on time. Gradually, we have started giving more people a voice in how that office is run. I am sure this will be a positive over the coming years.

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After the Municipal Commissioner laid down the new rules, real estate projects in Mumbai, including ours have got moving after total suspension of activity for about fifteen months. After we acquired the neighboring land last year, the project size increased three times the original size. Based on current projections, the project should get completed towards the end of FY15.

Some positive developments that will have an upward impact on realisations follow. The Eastern Express Highway, intended to reduce commute time between South Mumbai and the Eastern suburbs was opened to traffic in June 2013. This has reduced the travel time from Chembur to South Mumbai from over an hour earlier to only fifteen minutes. Another road connecting Chembur to the Santa Cruz airport is also under construction and that is also likely to be completed before our project comes on to the market. By avoiding going through Sion, this is expected to significantly cut down travel time to the airport. There are a few other infrastructure projects, which are expected to cause Chembur as a micro market to be rerated in the coming years.

Based on the recent estimates, our investment of Rs.200 million has more than trebled.

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As I mentioned towards the beginning of this letter, with every passing year, we are getting closer to the recovery of the economy. More importantly, we have started to find ways to deliver better performance even if the economy stays soft for a while longer. After enduring lots of pain over the past half decade, let us hope for better times over the coming half.

## REPORT OF DIRECTORS & MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### For the year ended 31st March 2013

Your Directors have pleasure in presenting the Thirty sixth Annual Report together with the audited accounts of your Company for the year ended March 31, 2013

### Financial Results

All figures in Rs. Million

Particulars	FY 13	FY 12
Total Income	1136	1283
Total Expenditure	1166	1285
Profit before tax	(30)	(2)
Less: Tax expense	(1)	(2)
Profit / (Loss) after tax	(31)	(4)
<b>Appropriation made as under:</b>		
Transfer to General Reserve	—	—
Surplus / deficit carried to Balance Sheet	(31)	(4)

### Dividend

No dividend has been declared in the financial year under review having regard to results of the year and need to conserve resources

### Performance Review

Net sales of the company were lower at Rs. 1090 million against Rs.1262 million last year primarily because of very low sales of Construction Equipments. Good performance of drill division has been negated by poor performance of construction equipment business, resulting in net loss of Rs.31 millions.

The Company has decided to restructure its construction equipment business by realigning its resources to the expected lower level of business with a view to effect reductions in expenses/ costs as well working capital requirements.

### Overview of the Economy

The Indian Economy has been slowing down continuously over last two years. Fiscal and current a/c deficits, inflation not abating, tight monetary conditions, declining net exports coupled with governance issues and inordinate delays in clearances with regard to environment clearances, land acquisition, fuel linkages and paralysis in decision making/ policy initiatives have eroded business confidence. The recent rupee depreciation has added to the woes of the Indian Economy. The consumer demand which had lead to growth has also slowed down. Capacity utilization in capital goods sector is at around 70% with above normal inventory levels and hardly anyone is adding capacities.

The Government has started announcing certain measures like raising the limits of FDI in various sectors, clearances of pending projects and promises to clear more and more projects primarily relating to infrastructure. The investment in manufacturing is at its lowest. However, the perception of business and public at large continues to be negative and will turn positive only when they see the realities on the ground

The steps taken by the Government in recent weeks/months will take time for policy intent to be translated to economic / industrial revival. It will take still longer time for capital goods sector because of under utilized equipments and higher inventory levels. Hence, it will be difficult to assume benefits of various measures in FY 14

Currently, significant micro risks prevail from slow down, high current a/c and fiscal deficits and inflation above threshold limits which is impacting growth substantially.

### Business Environment & Prospects for FY 2013-14

Coal India, the company's main customer, endeavors to step up the Domestic Coal Production in order to meet the growing needs of our economy. During the year 2012-13, the overall production of coal has increased by 17.5 million tonnes. Of this increase, close to 16.4 Million Tonnes came from Coal India Ltd. (CIL). CIL has also registered a growth of 1.3% in production, 1.8% in off-take and 7.4% in coal supply to the power sector during April-May 2013. Keeping in mind the aim of increasing the coal production, 7 Open Cast Mines of total capacity of about 25 million tonnes are proposed to be offered to Mine Developer-cum-Operators (MDOs) within this year.

The business from Coal India is expected to be better this year during FY14 as a number of tenders pending for a long time are at the finalization stage. Our efforts to broad base our business in terms of products and markets including export are ongoing will start giving benefits from now on.



Prospects for construction equipments are not expected to improve. Accordingly, capacities as well resources deployed will be very closely aligned to business needs with a view to cut costs during this year.

#### **Subsidiary Companies**

**Semac Consultants Pvt Ltd (Semac)**

Potential Semac Consultants Pvt. Ltd (P+S) name has been changed as Semac Consultants Private Ltd.

Semac Consultants Pvt. Ltd (Semac) is providing architecture and Engineering Design solutions for realty sector catering to industrial and commercial segments

Total revenue of Semac was at Rs 760 million in FY13 as against Rs 670 million in FY12 registering an increase of 13.4%. The subsidiary made a profit (PBT) of Rs. 117.2 million in FY13 against the profit of Rs 1.2 million in FY12. Considerable decrease in expenses and increase in revenue resulted in improved increase of profitability.

**Renaissance Construction Technologies India LLP**

Renaissance Construction Technologies India Ltd., wholly owned subsidiary, commenced its operations in FY12 by undertaking design and build projects and offering PMC services. The subsidiary company was converted into Limited Liability Partnership with effect from 27.12.2012.

Revenue from operations of this entity was at Rs 348.4 million in FY13 against Rs 56.7 million in FY12 registering an increase of 514% and earned a PBT of Rs 56.1 million in FY13 against loss of Rs 7.30 Million in FY12.

#### **Consolidated Financial Statements**

Your directors have pleasure in attaching the consolidated financial statements by consolidating accounts of Revathi Equipment Ltd., Renaissance Construction Technologies LLP. (wholly owned subsidiary), Semac Consultants Pvt. Ltd. (subsidiary company) and Satelliier Holdings Inc. USA under applicable accounting Standards of the Institute of Chartered Accountants of India.

On consolidated basis, the total revenue for FY13 was Rs.2.25 billion (FY12 - Rs.2.02 billion) and PBT was Rs 123 million against loss of Rs 27 Million. Increase in sales revenue and resultant profit is due to better performance of subsidiaries.

#### **Human Resources**

Your company realizes that it has to re-orient its organization as dynamics of business are changing fast. The company is taking steps to retain its talent pool, enhance skill of existing people and recruit the most suited talent to spearhead its growth initiatives. Your company's business has been divisionalised and business unit heads are in place.

#### **Risks and Concerns**

Lower than expected GDP growth in infrastructure sector, particularly in coal and construction segment may impact your company's prospects.

Inflation and rising interest costs continue to cause worry.

#### **Cautionary Note**

Certain statements in "management discussions and analysis" section may be forward looking and are stated as required by law and regulations. Many factors, both external and internal, may affect the actual results which could be different from what the directors envisage in terms of performance and outlook.

#### **Internal Control**

The company is committed to maintaining an effective internal control environment and a system of accounting and control that provides assurance on the efficiency of operations, existence of internal controls and safeguarding of its assets and management of risks. The system of accounting and controls are modified and improved from time to time, in line with changes in business conditions and recommendations of internal auditors.

During the financial year under review, the Audit Committee met four times to examine the reports on internal control/audit systems, financial disclosures and monitoring the implementation of internal audit recommendations. Your company continues to focus on risk management and also evaluate the internal control systems continuously so as to minimize and mitigate risks and improve control systems.

#### **Board constitution**

In accordance with the Articles of Association of the company, Mr. B.V.Ramanan and Mr. B.D.Narang retire by rotation and being eligible, seek re-appointment.

#### **Conservation of Energy**

As regards conservation of energy, company continued its efforts by elimination of waste, improvement in power factor and by good maintenance of various equipments. No capital investment was made during the year in this regard. As the cost of energy



in the total cost is insignificant and considering the nature of our industry, measurement of savings in energy could not be undertaken.

**Technology Absorption**

Particulars with regard to technology absorption as required under Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 are furnished in the annexure and the same forms part of this report.

**Foreign exchange earnings and outgo**

The Company earned foreign exchange of Rs. 46.9 million and the foreign exchange outgo during the year amounts to Rs 110.8 million.

**Personnel/Industrial relations**

Industrial relations were satisfactory during the year.

In terms of Sub- section (2A) of Section 217 of the Companies Act 1956, the company has no employee drawing salary exceeding Rs.60.00 lakhs per annum or Rs.5.00 lakhs per month during the year under review.

**Directors' responsibility statement**

The Board of Directors confirm that:

- (i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- (iii) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act,1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) the directors had prepared the annual accounts on a going concern basis.

**Appreciation**

The Directors express their sincere appreciation of dedicated efforts put in by our people and their commitment to make the company a high performance Company. The Directors also place on record their appreciation of the continued support and recognition provided by our esteemed customers.

For and on behalf of the Board of Directors

Place : Chennai  
Date : July 12, 2013

**Abhishek Dalmia**  
Executive Chairman



## ANNEXURE

Form for disclosure of particulars with respect to Absorption

### Research and Development (R&D)

1. Specific areas in which R&D carried out by the company : Development of new type of Blasthole drill, for domestic market.
2. Benefits derived as a result of the above R&D : New Product Development.
3. Future Plan of action : Continuous development of new type of drills and construction equipment products.
4. Expenditure on R&D :
  - (a) Capital : Rs. Nil
  - (b) Recurring : Rs. 12.3 Million
  - (c) Total : Rs. 12.3 Million
  - (d) Total R & D expenditure as a percentage of total turnover : 1.08 %

### Technology absorption, adaptation and Innovation

1. Efforts, in brief, made towards technology absorption, adaptation and innovation : Lot of efforts are being taken for technology absorption, adaptation and innovation
2. Benefit derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution, etc. : Import substitution and cost reduction.  
Improved drill performance & customer satisfaction.  
Indigenisation of Imported items led to cost reduction.
3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), the following information may be furnished.
  - a) Technology imported : Technical know-how for manufacture of Batching Plant, Transit Mixers, Concrete Pump and Boom Pump
  - b) Year of import : FY 2005-06/ FY 2006-07
  - c) Has Technology been fully absorbed? : Yes
  - d) if not fully absorbed, areas where this has not taken place, reasons therefore, and future plans of action : Not applicable